

Message Text

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12

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 IO-13 ADP-00 AGR-20 CEA-02

CIAE-00 COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08

L-03 LAB-06 NSAE-00 NSC-10 PA-03 RSC-01 AID-20

CIEP-02 SS-15 STR-08 TAR-02 TRSE-00 USIA-15 PRS-01

OMB-01 RSR-01 /194 W

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R 190646Z JUL 73

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 1338

INFO AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

USMISSION GENEVA

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: ETRD, GATT, EGEN, AS

SUBJ: AUSTRALIAN 25 PERCENT TARIFF REDUCTION

REF: CANBERRA 3999

1. THIS MESSAGE CONTAINS ADDITIONAL DETAILS GOA TARIFF REDUCTION REPORTED REFTEL. FULL TEXT OF ANNOUNCEMENT BY PRIME MINISTER AND MINISTER FOR OVERSEAS TRADE BEING FORWARDED A-162.

2. THIS MOVE RECOMMENDED BY SPECIAL COMMITTEE HEADED BY TARIFF BOARD CHAIRMAN RATTIGAN APPOINTED SEVERAL WEEKS AGO. CABINET DECISION TO ADOPT COMMITTEE'S UNANIMOUS RECOMMENDATION MADE LATE AFTERNOON JULY 18 AND ANNOUNCED CANBERRA EARLY SAME EVENING. TIMING AND IMMEDIATE APPLICATION OF DECISION UNDOUBTEDLY INFLUENCED JULY 17 ANNOUNCEMENT OF LIMITED OFFICIAL USE

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LATEST CONSUMER PRICE INDEX DATA SHOWING INCREASE OF

3.3 PERCENT IN APRIL-JUNE QUARTER. THIS ANNOUNCEMENT OF HIGHEST QUARTERLY RISE SINCE 1952 COINCIDED WITH BEGINNING OF CABINET BUDGET MEETINGS IN WHICH SERIOUS CURRENT INFLATION PROBLEM ALREADY SHARPLY LIMITING GOVERNMENT'S FREEDOM OF ACTION TO MAKE PROVISION FOR NEW PROGRAMS TO WHICH IT WAS COMMITTED. THIS CONJUNCTION OF FORCES APPARENTLY LED TO DETERMINATION OF URGENT ANTI-INFLATIONARY ACTION. WITHIN FOREIGN TRADE FIELD, MAJOR TARIFF ADJUSTMENT VIEWED AS PRINCIPAL ALTERNATIVE TO FURTHER REVALUATION AUSTRALIAN DOLLAR. LATTER COURSE REJECTED IN PART BECAUSE OF UNFAVORABLE EFFECT ON AUSTRALIAN COMPETITIVENESS.

3. DETAILED ANNOUNCEMENT EMPHASIZES SIMULTANEOUS PROVISION OF SPECIAL TRIBUNAL TO CONSIDER APPEALS FOR RELIEF FROM ADVERSE EFFECTS OF TARIFF REDUCTION. AMBITIOUS PROGRAM OF TRADE ADJUSTMENT MEASURES CONTEMPLATED IN ORDER TO PERMIT PRIMARY RELIANCE ON INDUSTRIAL ADJUSTMENT MEASURES RATHER THAN ON RESTORATION HIGHER PROTECTION.

4. WHILE PLAN INVOLVES IMMEDIATE APPLICATION JULY 19 BY CUSTOMS AND EXCISE OF 25 PERCENT REDUCTION, IT CONTEMPLATES THAT NUMEROUS ADJUSTMENTS WILL BE REQUIRED IN ORDER TO ADHERE TO AUSTRALIAN BILATERAL TARIFF COMMITMENTS, INCLUDING THOSE IN NEW ZEALAND FREE TRADE AGREEMENT, AND BOUND PREFERENCE MARGINS SUCH AS THOSE WITH CANADA. APPARENT INTENTION IS TO IDENTIFY THESE NECESSARY FURTHER ADJUSTMENTS WITHIN COMING FEW DAYS AND MAKE NECESSARY FURTHER MODIFICATIONS IN REDUCED RATES PREVIOUSLY APPLIED JULY 19.

5. INITIAL REACTIONS IN PRESS AND BUSINESS CIRCLES RANGE FROM STRONG PRAISE BY AGRICULTURAL INTERESTS TO CAUTIOUS COMMENT BY ACTU AND STRONG OPPOSITION FROM MANUFACTURERS' ASSOCIATION. GENERAL PRESS REACTION FAVORABLE, USUALLY EMPHASIZING SIGNIFICANCE FOR LONG-TERM DIRECTION INDUSTRIAL GROWTH.

6. INITIAL EMBASSY APPRAISAL IS THAT SHORT-RUN EFFECT ON U.S. IMPORTS PROBABLY MODEST. THIS FOLLOWS FROM FACTS (A) LARGE PROPORTION U.S. EXPORTS NOW ENTER DUTY FREE OR LIMITED OFFICIAL USE

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AT VERY LOW RATES UNDER BY-LAW AND (B) MANY AUSTRALIAN PRODUCTS PREVIOUSLY ENJOYED LEVEL OF PROTECTION SUBSTANTIALLY ABOVE THAT REQUIRED TO MEET IMPORT COMPETITION AND IN SUCH CASES ALL OR PART OF 25 PERCENT REDUCTION WILL COME OUT OF THIS "FAT" IN PREVIOUS TARIFF LEVEL. ON OTHER HAND, THERE HAS BEEN EVIDENCE THAT PAST EXCHANGE RATE CHANGES WERE CREATING NEW OPPORTUNITIES FOR U.S. CONSUMER GOODS IN PARTICULAR. GIVEN THE SHORTER CYCLE OF PROCUREMENT AND

THE EVIDENCE THAT SOME AMERICAN CONSUMER PRODUCTS WERE ALREADY MOVING INTO COMPETITIVE POSITIONS, THE MOST TANGIBLE BENEFIT FOR U.S. EXPORTS MAY BE IN CONSUMER GOODS AREA. AUSTRALIAN COMMENT SUGGEST THE DOMESTIC INDUSTRIES HAVING THE LEAST MARGIN OF EXCESS PROTECTION UNDER PREVIOUS TARIFF LEVELS WERE MOTOR VEHICLES, CONSUMERS GOODS, TEXTILES, SHOES AND CHEMICALS. IN LONGER-RUN MUCH OF IMPACT WILL DEPEND ON WHAT PROLICIES ARE APPLIED WITH RESPECT TO APPEALS AND TRADE ADJUSTMENT MEASURES. IF STATED GOA INTENTION OF WELCOMING CONSTRUCTIVE SHIFTS IN PATTERN OF INDUSTRY IS PURSUED, THIS MOVE SHOULD PROVE A SIGNIFICANT INFLUENCE IN DIRECTION OF GRADUAL EMPHASIS ON MORE ECONOMIC INDUSTRIES AND IN TURN IMPROVED EXPORT COMPETITIVIENESS. IN THIS PROCESS, SOME PAST INDUCEMENTS TO AMERICAN MANUFACTURING INVESTMENT WOULD BE MODERATELY REDUCED IN FAVOR OF INCREASED U.S. EXPORT

7. GOA HAS NOT COMMENTED ON RELATION THIS MOVE TO UPCOMING GATT TRADE NEGOTIATIONS BUT IT SEEMS LIKELY THIS MAY BECOME A MAJOR PART OF ITS CONTRIBTION TO SUCH NEGOTIATIONS. UNTIL THAT TIME THESE UNILATERAL REDUCTIONS WILL OF COURSE BE SUBJECT TO UNILATERAL ADJUSTMENT AND WILL REPRESENT IN EFFECT THE APPLICATION OF A RELATIVELY MODEST BY-LAW TO THE ENTIRE RANGE OF AUSTRALIAN IMPORTS.

8. EMBASSY WILL REPORT ADDITIONAL DETAILS AS SPECIFIC FEATURES OF THE PLAN ARE DEVELOPED IN THE NEAR FUTURE.
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